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Top Secret

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Wednesday August 3, 1977

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National Intelligence Daily Cable for wednesday, August 3.

The NID Cable is for the purpose of informing senior US officials.

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CYPRUS: President Makarios Dies

25X1 [] Cypriot President Makarios' death following a heart attack last night will leave a void in Cypriot, Greek, and Turkish affairs that will be difficult to fill. Efforts to find a Cyprus settlement will be seriously complicated and maneuvering to find a new Greek Cypriot leader could lead to violence among rival factions.

25X1 [] Only Makarios had the authority and prestige to persuade his Greek Cypriot compatriots to make the concessions any settlement of the problems resulting from Turkey's invasion of the island in 1974 could require. He had pursued a rather tough line in negotiations with the Turkish Cypriots, but in recent months he adopted a more forthcoming approach that went far toward meeting the Turkish Cypriots' demand for a loose association between two autonomous states on the island.

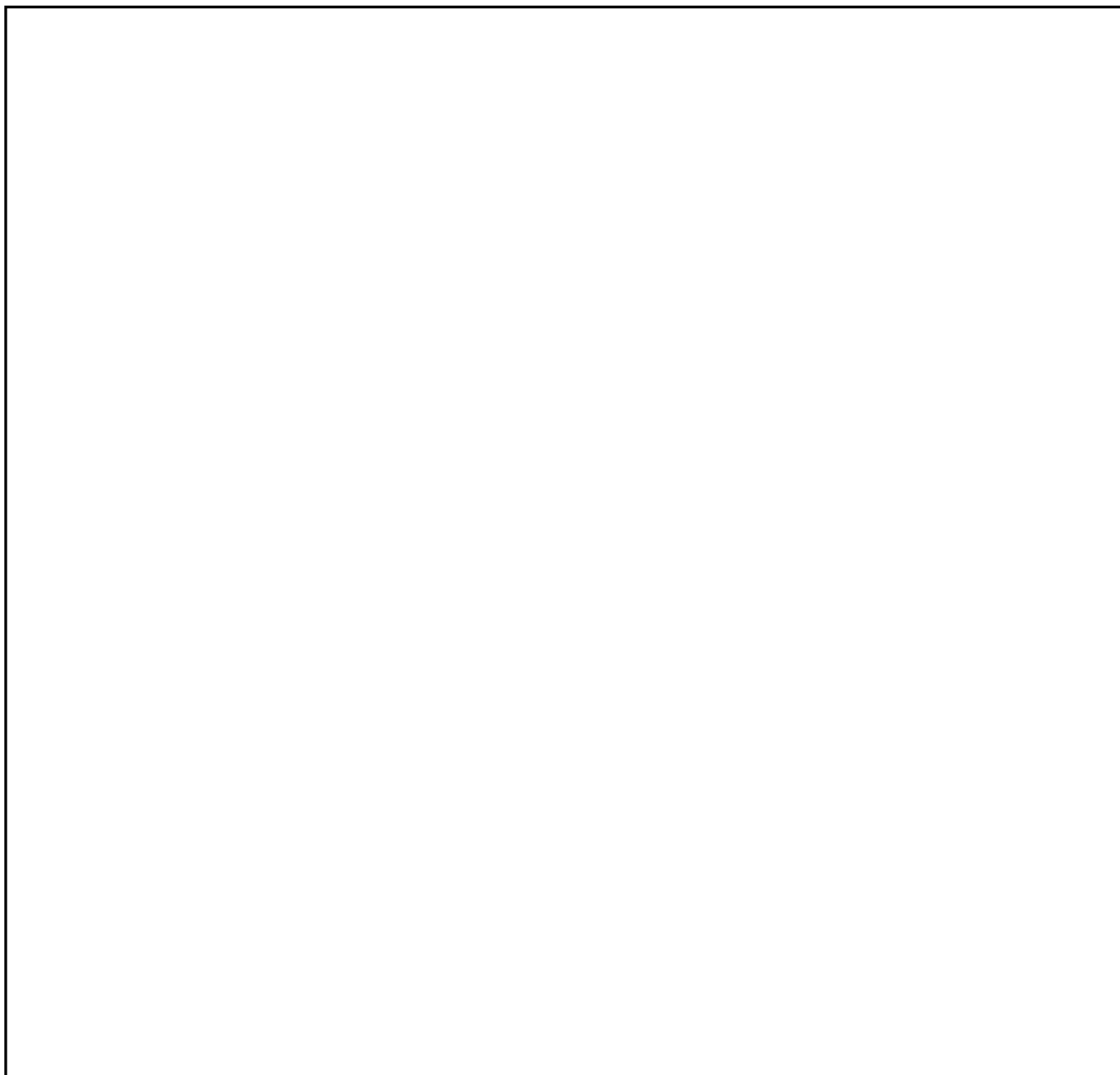
25X1 [] Makarios' death could lead to violence among contending Greek Cypriot factions over the selection of a successor. The president of the House of Representatives, Spiros Kyprianou, will now serve as acting president, but elections for a new president must be held within 45 days.

25X1 [] In addition to Kyprianou, Greek Cypriot negotiator Tassos Papadopoulos will be a strong candidate for president. There are indications, however, that the favored contender may be Pascalis Pascalides, a Makarios confidant and non-political businessman around whom the various factions might unite.

25X1 [] Archbishop Makarios led the majority Greek Cypriot community from 1950 until his death. He organized the campaign for union with Greece which failed because of Turkish opposition. He became president when Cyprus gained its independence in 1960. []

ETHIOPIA-SOMALIA: Situation Report

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[REDACTED] Mogadiscio has appealed directly to the US for a donation of medical supplies to use with refugees and casualties from the Ogaden--about 20,000 allegedly are being treated in

camps in Somalia. The Somalis say they are making their appeals for relief strictly on a bilateral basis in an effort to avoid internationalizing the situation. Iran reportedly has sent in two planeloads of what are probably medical supplies.

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[redacted] Ethiopia yesterday called for a special emergency session of the OAU to discuss "Somali aggression." The new president of the OAU, Gabonese President Bongo, has called simultaneous meetings of three OAU mediation committees beginning this Friday.

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[redacted] One of the committees is concerned with the dispute between Ethiopia and Somalia. Created in 1973 and consisting of eight members chaired by Nigeria, it has been virtually dormant. The other two committees--one to mediate between Ethiopia and Sudan and the other to mediate between Chad and Libya--were set up at the Libreville summit last month.

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[redacted] The OAU's record for mediation is not a strong one. While its members endorse the doctrine that existing borders should not be tampered with, the most that Ethiopia can expect will be verbal expressions of support. [redacted]

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SOUTH KOREA - US: Consultations

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[redacted] //South Korean reaction to the US - South Korean security consultations in Seoul last week has been generally positive. Gratification over the US reaffirmation of its security commitment is somewhat tempered by concerns about US plans for equipment compensation. The generally positive tone of the meetings, plus Secretary Brown's subsequent stop in Tokyo, has

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helped allay Japanese concern about the US troop withdrawal. Moscow and Peking, meanwhile, have replayed relatively restrained North Korean criticism of the US - South Korean communique.//

25X1 [] //President Carter's letter to President Pak, delivered by Secretary Brown during the consultations, was given top media play in Seoul and was welcomed as a particularly useful and timely expression of the US commitment. Most South Korean officials thought the US visitors gained a thorough appreciation of Seoul's defense requirements during the talks.//

25X1 [] //The Koreans were especially gratified by the US agreement to defer the removal of two brigades of the Second Division until the last phase of the troop withdrawal. They were also pleased that no precise timetable has been set for the withdrawal after the first brigade leaves next year and that the US has noted its intention to review developments on the peninsula as the withdrawal progresses. Both decisions, Seoul believes, will be psychologically unsettling to the North Koreans.//

25X1 [] //While generally satisfied with the talks, South Korean defense planners did not get all the concessions they had hoped for. They noted that the US was less generous with military aid grants than with sales credits. Along with many other South Koreans, they were also concerned that US Congressional inaction could delay the equipment and sales credits proposed by Secretary Brown. More specifically, they were disappointed by the US refusal to approve coproduction of certain types of weapons, including the M-60 main battle tank and the Lance surface-to-surface missile.//

25X1 [] //Even so, Seoul will probably be able to obtain similar items from other sources. For example, US reluctance to encourage the development of a tank production program in South Korea may prompt Seoul to go ahead with tentative plans to coproduce the West German Leopard I tank.//

25X1 [] North Korean media late last week portrayed the consultations as further evidence of US insincerity with regard to the troop withdrawal issue, and for the first time criticized the Carter administration by name. The tone of the commentary, however, was relatively moderate. It contrasted sharply with a long harangue on the "aggressive nature" of US imperialism

broadcast from Pyongyang a day earlier under the guise of the "Voice of the Revolutionary Party for Reunification," which North Korea asserts operates clandestinely in the South.

25X1 [] North Korea's reaction underscores its essentially two-track approach in propaganda treatment of the US in recent months. In public remarks, President Kim Il-song has balanced approval of President Carter's pledges to withdraw US forces and to press the human rights issue in the South with misgivings about whether these pledges would be fully met. Official North Korean media have mostly followed Kim's lead, while less authoritative means such as the "Voice" are used to vent North Korea's displeasure. []

USSR: Sluggish Soviet Industry

25X1 [] Soviet industry, which in 1976 posted its worst record since World War II, continues to be plagued by lackluster performance. The continuing decline in the growth of industrial production--particularly steel--and energy output could lead to a substantial slowdown in machinery output. In the long run, continued problems in the ferrous metals industry could severely constrain industrial growth.

25X1 [] According to recently released official Soviet statistics, industrial output, which has averaged about 8 percent annually since World War II, grew at a 4.7 percent annual rate in the first half of 1977--only a marginal increase from the 4.2 percent annual rate achieved during the first six months of last year. The slight improvement reflects a rebound in processed food production, up 6.5 percent after a decline of nearly 6.5 percent in the first half of 1976.

25X1 [] More significant is the continuing decline in growth of industrial materials, which account for over half of industrial output. Industrial materials posted an even slower growth in the first half of 1977 than in the same period last year. Ferrous metals output has virtually stagnated at 1976 levels.

25X1 [] The era when finished steel production rose annually by nearly four million tons apparently has ended. Expansion of steel capacity is hampered by the continuing lags in construction of new plants and by the siphoning off of investment funds

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from steel plants to ore-refining plants because of the declining quality of Soviet iron ore. Efficiency is reduced by the prolonged operation of technologically obsolete plants.

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[] The inability of the steel industry to produce high-quality cold-rolled sheet, tin plate, and large-diameter pipe in sufficient quantities has transformed the USSR into a net steel importer at a substantial cost in hard currency. Last year, Moscow spent \$2.2 billion on steel imports from the West.

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[] Energy producing branches also are running at lower growth rates this year. The growth of electric power fell to an all-time low of 3.4 percent during the past six months because of reduced demand. Growth of oil and gas production declined generally as planned by more than one percentage point from the first half of 1976.

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[] Sporadic reports continue to indicate that fuel shortages are hampering output of products such as cement. Other industrial materials branches, such as non-ferrous metals, chemicals, and timber and wood processing, have also been cited for failing to achieve their potential.

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[] We estimate that the growth rate of the civilian machinery sector inched up to 7.5 percent, after a 7-percent increase in the first half of 1976. Sustaining this growth may prove difficult, however, given the continued slowdown in ferrous metals and fuel branches--major suppliers to machinery. If trends of the past 18 months persist, supply problems in industrial materials could develop that would slow machinery growth substantially.

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[] In the long run, the continued inability of the ferrous metals industry to produce the requisite quantities of high-grade products may severely hamper industrial growth if the availability of steel imports or the capacity to pay for such imports is constrained.

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[] Despite the upsurge in processed food production in the first half of 1977, consumers are still plagued by local shortages of meat and dairy products. Even the 9-percent rise in meat production was insufficient to bring supplies back to levels achieved in the first half of 1974 and 1975.

[redacted] Substantial quantities of meat apparently never reached the market because of the need to replenish depleted stocks; sales to the public declined slightly from last year. Similarly, the production of whole milk products grew only 3 percent, a rate that failed to offset the drop in 1976. [redacted]

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ETHIOPIA: Transport Problems

[REDACTED] //The Ethiopian economy, which performed well despite years of domestic political turmoil, is beginning to feel the effects of the insurgencies under way in Eritrea and the Ogaden. The key Djibouti - Addis Ababa railroad, which previously carried about half of the country's foreign trade excluding oil, is still closed following the guerrilla attacks in June. Road traffic to the port at Massawa reportedly has been interrupted for several months.//

[REDACTED] //Ethiopia has been forced to shift its trade to the Eritrean port of Assab, the entry point for almost all military supplies. Military requisition of civilian vehicles has caused a shortage of trucks for moving goods between Addis Ababa and Assab, seriously disrupting loading schedules at the port and resulting in long delays for ships. Freight forwarders expect no improvement in port conditions in the near future and now offer foreign clients no guarantees on cargo handling at Assab.//

25X1 [] The government can do little to restore its transportation options until security conditions improve. The guerrillas are in a position to interrupt any attempts to reopen the Djibouti - Addis Ababa railroad. A new highway linking Djibouti to the Addis Ababa - Assab road is ready for traffic, but its usefulness is limited until Ethiopia expands its trucking capacity. Even if Ethiopia gets more trucks, the insurgents are likely to begin interdicting the highway as it becomes more important to the movement of goods.

25X1 [] Foreign trade represents only 10 percent of the gross national product, but large numbers of Ethiopians depend on coffee and other agricultural exports for their livelihood. Petroleum imports make up 80 percent of the country's energy requirements in the nonsubsistence part of the economy. The urban population has become increasingly reliant on imported consumer goods. A sharp slowdown in trade could overturn what has been a surprisingly stable economic situation and risk adding urban unrest to the regime's problems. []

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THAILAND-CAMBODIA: Border Incident

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25X1 [] //The Aranyaprathet area has been the site of a number of armed clashes over the past year. The clash between Thai and Cambodian forces on July 20 resulted in the deaths of 17 Thai troops. Although infantry contact was broken off, entrenched Cambodian forces have resisted Thai efforts to dislodge them with artillery and air attacks. The Cambodians attacked a Thai border outpost more than 100 miles north of Aranyaprathet on July 24, and several additional border clashes occurred last week.//

25X1 [] //Thai policy appears to call for maximum press coverage of any border incident that can be used to call attention to Cambodian aggressiveness, but the recent clashes--like the earlier ones--are not likely to escalate into a serious confrontation. Thai forces are attempting to avoid fire-fights with the Cambodians, relying instead on their artillery

and air superiority. As long as the Cambodians retain the initiative, however, Thai villages and border patrol posts will be vulnerable to continued harassment and attack.

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NICARAGUA: Prospects for Succession

Reports on the health of Nicaragua's President Anastasio Somoza, who was flown to the Miami Heart Institute on July 28 after his heart attack four days earlier, are generally favorable. A caretaker chief executive has been appointed, and Somoza has entrusted behind-the-scenes power to his half-brother, General Jose Somoza, as acting chief of the National Guard. These arrangements will probably suffice if the President's absence lasts only a few weeks and if his condition improves enough to permit a gradual resumption of day-to-day leadership. If his recovery is slower or his absence prolonged, pressures will increase to find a replacement.

The constitution provides for the minister of government (there is no vice president) to assume administrative power during the temporary absence of the president; the minister, Antonio Mora, has been named to carry out this responsibility. If the President's absence extends for more than three months, or if he is unable to make major policy decisions, the Congress must appoint a replacement. This replacement would complete the current presidential term, which ends in 1981, if the President is unable to return to office.

For all practical purposes, Nicaragua has been governed for more than 40 years as a Somoza family estate. It is far from certain, however, that another member of the family would receive the necessary support to take over. Neither of the most prominent second-echelon Somozas--half brother Jose and son Anastasio--are acceptable to the National Guard or to the ruling Liberal Party as long-term leaders.

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[] The rumor mill began grinding out reports of coup plotting and opposition plans as soon as Somoza's hospitalization was known, but most opposition groups--including the country's extremist guerrilla group--have reportedly adopted a wait-and-see attitude. Restiveness will certainly increase with the length of Somoza's inactivity, and it would not be surprising if opposition groups soon begin clamoring for a replacement.

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[] At the moment, Somoza appears able to make the major decisions, leaving Minister of Government Mora to handle the day-to-day administrative details. If Somoza's condition should worsen and the next step become necessary, the constitutional succession process would very likely be followed. In this case, Pablo Rener, president of the Senate, is the odds-on favorite to replace Somoza--at least in a nominal capacity.

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[] The real drama would be played out backstage, and power lies in the hands of whoever gains the support of the National Guard, the country's only military force. The finance minister, General Gustavo Montiel, and General Samuel Genie, the Guard's intelligence chief, would figure prominently in the struggle for the Guard's support.

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[] Whoever emerges as the new political leader would probably talk about holding "honest" elections at the scheduled time, but a democratic government is not likely to emerge in the foreseeable future. []

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BRIEFS

Canada-US

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[] //The Lysyk report yesterday recommended that a northern gas pipeline be built along the Alaska-Canada Highway, on the condition that actual construction be delayed until mid-1981 to allow for the complete settlement of native claims. The recommendation, the last of three major studies of alternate pipeline routes, smoothes the way for Ottawa to choose the Alcan route, although the proposed delay may reduce the attractiveness of the project in comparison to a sea route.//

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25X1 [] //The report will probably spur heated debate in parliament, scheduled for tomorrow and Friday, over the need for a pipeline designed initially to carry only US gas. It also is likely to complicate further the government's decision-making process at the cabinet level. The consortium backing the Alcan route had earlier indicated that it would accept a moratorium of up to five years on construction. Prime Minister Trudeau, however, probably would like to get construction started earlier so as to give Canada's sluggish economy a much-needed boost in time for a possible election next year.

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South Korea - North Korea:

25X1 [] A South Korean ferry boat under navy escort arrived yesterday without incident at the UN-controlled islands off the West coast of the Korean peninsula. The islands lie within the presumed limits of North Korea's recently declared coastal security zone, and South Korea is portraying the resupply operation as a demonstration of its determination to maintain free passage to its garrison forces on the islands.

25X1 [] Additional South Korean ship activity is anticipated in the vicinity of the islands over the next few days. North Korea has neither commented publicly on the boat's arrival nor offered any clarification of its military and economic sea zones.

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